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2 United States Attorney

FILED

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RICHARD W. WIEKING
CLERK, U.S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

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7 UNITED STATES DISTRICT COURT
8 NORTHERN DISTRICT OF CALIFORNIA
9 SAN FRANCISCO DIVISION

CRB

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11 UNITED STATES OF AMERICA,

12 Plaintiff,

13 v.

14 SERGE IVANOV and
15 MICHAEL SOLOVEY,
16 a/k/a Robert Stein,
17 Defendants.

CR 04-03107
No.

VIOLATIONS:

18 U.S.C. § 371 – Conspiracy;
20 U.S.C. § 1097(a) -- Financial Aid
Fraud;
18 U.S.C. §§ 1341 – Mail Fraud;
18 U.S.C. § 1956(a)(1)(A)(i) – Laundering
of Monetary Instruments;
18 U.S.C. § 2 – Aiding and Abetting;
18 U.S.C. § 982(a)(1) – Criminal
Forfeiture

SAN FRANCISCO VENUE

18
19 INDICTMENT

20 The Grand Jury charges:

21 INTRODUCTION

22 At all times relevant to this Indictment:

23 1. Defendant Serge Ivanov was the co-owner of the California School Medical
24 Sciences ("CSMS"). CSMS was a vocational training school located in Beverly Hills,
25 California, that provided primarily health-care related courses, including diagnostic
26 medical sonography or ultrasound courses. CSMS's principal school was located in
27 Beverly Hills, California. CSMS was also affiliated with institutions located in Southern
28 California, San Francisco, California and Las Vegas, Nevada.

INDICTMENT

1 2. Defendant Michael Solovey (a/k/a "Robert Stein") was the general manager
2 of Software Training Centers ("STC"), a subsidiary of United Soft Digital Corporation.
3 STC was a vocational training school located in San Francisco, California, that offered
4 primarily computer-related courses.

5 3. The United States Department of Education ("DOE") was responsible for
6 administering federal student financial assistance programs ("financial aid programs")
7 authorized by the Higher Education Act of 1965 as amended. Among these were student
8 loan programs and federal Pell grant programs. Pell grants, unlike student loans, do not
9 have to be paid back by the student.

10 4. In order for a school to be eligible to participate in a financial aid program,
11 DOE requires, among other things, that the school be accredited by a nationally DOE-
12 recognized accrediting agency and licensed by a state licensing agency. Subsequent to
13 obtaining accreditation and licensing, the school is required to enter into a provisional
14 Program Participation Agreement ("PPA") with DOE, in which the participating school
15 agrees to comply with the laws, regulations and policies governing the financial aid
16 programs. In the PPA and corresponding Eligibility and Certification Approval Report
17 (ECAR), the school discloses what specific courses will be eligible for Federal student
18 financial assistance funds ("federal funds") and the exact location of where these courses
19 will be taught. A condition of the PPA is that the officers of the school have a fiduciary
20 duty to DOE to ensure the proper disbursement and accounting of federal funds. The
21 PPA is provisional in that there is a one year probationary period wherein the school
22 must, among other things, strictly comply with DOE regulations, including the
23 requirement that the school must not only provide the address of each location where
24 courses authorized to receive federal funds are taught, but also must receive DOE
25 approval of any changes, such as the addition of branch offices that wish to receive
26 federal funds.

27 5. Pell grants and student loans are generally disbursed to schools in two
28 installments, with the first half disbursed at the beginning of the authorized course and the

1 second half disbursed after the student has completed a certain number of hours of
2 attendance or academic credits.

3 6. In addition to school eligibility requirements, DOE imposes its own student
4 eligibility requirements. A student must submit a Free Application for Federal Student
5 Aid ("FAFSA"), which contains factors such as income, dependency status, and marital
6 status, to a DOE processing center in Iowa City, Iowa. The FAFSA is sent to DOE either
7 by mail or it may be sent electronically by the school. If the school electronically
8 transmits the student's FAFSA, the FAFSA is processed resulting in the school
9 electronically receiving an Institutional Student Information Report ("ISIR"). Schools
10 may award federal funds to students who possess a valid ISIR. In order to be awarded
11 federal funds, a student must be enrolled in an eligible program at an eligible school.
12 Once the school receives an ISIR, the school can see what federal funds the student is
13 eligible to receive (e.g., student loans only, some student loans and some Pell grants, or
14 Pell grants only). The school then transfers the federal funds to a DOE-required trust
15 account (referred to as a draw down) that the school must establish solely for the receipt
16 and disbursement of federal funds.

17 COUNT ONE: (18 U.S.C. § 371 – Conspiracy)

18 THE CONSPIRACY

19 7. The allegations contained in paragraphs 1 through 6 of this Indictment are
20 realleged as though fully set forth herein.

21 8. From on or about January 2000, and continuing to in or about October
22 2001, in the Northern District of California and elsewhere, the defendants

23 SERGE IVANOV and
24 MICHAEL SOLOVEY
a/k/a Robert Stein,

25 did knowingly combine, conspire, confederate and agree with each other and others
26 known and unknown to the Grand Jury to commit the following offenses against the
27 United States:

28 //

- 1 a. knowingly and willfully obtaining by fraud, false statement or
2 forgery funds, assets, or property provided or insured under
3 subchapter IV of Chapter 28 of Title 20 of the United States Code,
4 Section 1870 et seq. including Pell Grants and loan funds, and
5 attempting to so obtain by fraud, false statement or forgery, any such
6 funds, in violation of Title 20, United States Code, Section 1097(a);
7 and,
8 b. using the United States Postal Service or equivalent private mail
9 delivery service in execution of a scheme to defraud in violation of
10 Title 18, United States Code, Section 1341; and,
11 c. knowingly conducting financial transactions which affected
12 interstate commerce with the proceeds of a specified unlawful
13 activity – namely, mail fraud, a violation of Title 18, United States
14 Code, Sections 1341, in violation of Title 18, United States Code
15 Section 1956(a)(1)(A)(i).

16 METHODS AND MEANS OF THE CONSPIRACY

17 9. From approximately December 1999 to October 2001, Solovey and Ivanov
18 (the “defendants”) devised and participated in a scheme to defraud DOE in connection
19 with its administration of Title IV financial aid programs and its control over the
20 disbursement and use of federal Pell grants and student loans. The goal of the scheme
21 was to circumvent Title IV and its regulations and obtain federal funds through fraudulent
22 means, the proceeds of which they used in part for personal gain and the promotion of the
23 underlying scheme to defraud.

24 10. On or about August 17, 1999, Ivanov attended and completed a DOE
25 mandated re-certification training workshop. The 4-day workshop included training on
26 the requirements of the federal programs and the responsibilities of a disbursement agent
27 and fiduciary agent for DOE. Completion of this workshop further enabled CSMS to
28 receive federal funds.

1 11. Ivanov entered into a provisional PPA with DOE on May 9, 2000 for the
2 time period May 9, 2000 to June 6, 2001. Ivanov disclosed in the PPA and ECAR that
3 there was only one location – the Beverly Hills location – that would receive federal
4 funds. Ivanov further disclosed that the accredited course that was eligible to receive
5 federal funds was for diagnostic medical sonography or ultrasound training.

6 12. Pursuant to the PPA, Ivanov set up the DOE-required trust account. The
7 trust account was identified as Union Bank of California Account Number 0720069288
8 (the “trust account”), located in Beverly Hills, California. Ivanov signed a contract with
9 R. Gonzalez Management Inc. (“RGM”), located in Los Angeles, California, which
10 provided software and support services for the receipt, management and disbursement of
11 federal funds for CSMS. Ivanov provided RGM with the PPA and ECAR showing that
12 CSMS would receive federal funds for ultrasound courses taken at the Beverly Hills
13 location. Although RGM provided the software for disbursing funds from the trust
14 account, Ivanov was ultimately responsible for disbursing federal funds from the trust
15 account.

16 13. As part of the conspiracy, the defendants agreed that Solovey would
17 provide Ivanov with financial aid applications or FAFSAs from San Francisco,
18 California. Solovey used financial information that he obtained primarily from former
19 and current computer students in San Francisco, who were unaware that their FAFSA was
20 used to obtain federal funds for a purported ultrasound course that they never took. The
21 students would either fill out the FAFSA not knowing the exact purpose or were told that
22 it was for a computer course. Ivanov would then submit these applications to DOE in
23 Iowa City, Iowa for payment.

24 14. To promote the fraud and create the appearance that STC offered an
25 ultrasound course, defendants manufactured forms such as student attendance records,
26 course evaluation sheets, clinical evaluation sheets, and report cards for each student with
27 made-up grades. They would forge the student’s signature on these forms and others,
28 including a form the student signed before receiving federal funds to ensure the student

1 would comply with DOE regulations.

2 15. As part of the conspiracy, the defendants agreed that for every San
3 Francisco application submitted to DOE and for which Ivanov received federal funds,
4 Ivanov would keep 30% of the fraudulently obtained funds and send the remaining 70%
5 to Solovey in San Francisco.

6 16. As part of the conspiracy, Solovey mailed the applications by federal
7 express to Ivanov from San Francisco to Beverly Hills. Ivanov then processed the
8 applications and submitted them electronically to DOE in Iowa City, Iowa, pursuant to
9 the PPA. Once DOE processed the applications and created an ISIR, the federal funds
10 would be drawn down to the trust account.

11 17. Ivanov withdrew the fraudulently obtained federal funds from the trust
12 account and deposited them in the CSMS Bank of America Account Number 0308608125
13 ("CSMS General Account") located in Beverly Hills, California. After transferring the
14 proceeds from the trust account to the CSMS General Account, Ivanov next issued checks
15 from the CSMS General Account to at least one of two bank accounts owned or
16 controlled by Solovey: 1) STC's Bank of America Account Number 0253707770 (the
17 "STC Account"), or 2) Universal Consulting Group's Bank of America Account Number
18 02809-10254 (the "Solovey Account"). Both accounts were located in San Francisco,
19 California.

20 18. Ivanov would primarily request Pell grants from DOE.

21 19. During the year 2001, DOE sent Ivanov approximately \$403,833.00 in
22 federal funds based on 80 student applications or FAFSAs submitted from the San
23 Francisco location. As part of the conspiracy, Solovey received 70% of these federal
24 funds and Ivanov kept 30%.

25 OVERT ACTS

26 20. In furtherance of the conspiracy, and to affect the objects thereof, at least
27 one of the coconspirators committed at least one of the following overt acts, among
28 others, in or between February 2000 and November 2001:

21. Solovey prepared and mailed the following applications by U.S. mail or Federal Express from San Francisco, California to Beverly Hills, California:

Overt Act	Student	Approximate Date FAFSA Mailed to Ivanov
21.A	Student A	January 15, 2001
21.B	Student B	January 15, 2001
21.C	Student C	January 15, 2001
21.D	Student D	February 12, 2001
21.E	Student E	February 22, 2001

22. Ivanov electronically submitted to DOE the following applications from Beverly Hills, California to Iowa City, Iowa:

Overt Act	Student	Date DOE Processed Application
22.A	Student A	January 24, 2001
22.B	Student B	January 24, 2001
22.C	Student C	January 24, 2001
22.D	Student D	February 23, 2001
22.E	Student E	March 12, 2001

23. Ivanov received federal funds in the form of Pell grants for the following students:

Overt Act	Student	Dates of Drawdowns	Total Amount
23.A	Student A	February 28, 2001\May 25, 2001	\$3,300
23.B	Student B	June 30, 2001\June 30, 2001	\$3,300
23.C	Student C	February 28, 2001\May 25, 2001	\$3,300
23.D	Student D	March 28, 2001\May 25, 2001	\$3,300
23.E	Student E	October 4, 2001	\$1,150

1 All in violation of Title 18, United States Code, Section 371.

2 COUNTS TWO THROUGH SIX: (20 U.S.C. § 1097(a) and 18 U.S.C. § 2 – Financial
3 Aid Fraud; Aiding and Abetting)

4 24. The allegations contained in paragraphs 1 through 23 of this Indictment are
5 realleged as though fully set forth herein.

6 25. On or about the dates set forth below, in the Northern District of California,
7 and elsewhere, the defendants

8 SERGE IVANOV and
9 MICHAEL SOLOVEY
a/k/a Robert Stein

10 knowingly and willfully obtained and caused to be obtained by fraud, false statement, and
11 forgery, funds of a value exceeding \$200, to wit: Pell Grants and loans to various
12 individuals, as set forth below, who were not entitled to receive those loans or grants,
13 which funds were provided and insured under subchapter IV of chapter 28 of Title 20 of
14 the United States Code:

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Count	Student	Unlawfully Obtained Federal Funds
TWO	Student A	\$3,300
THREE	Student B	\$3,300
FOUR	Student C	\$3,300
FIVE	Student D	\$3,300
SIX	Student E	\$7,515.53

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22 All in violation of Title 20, United States Code, Section 1097 and Title 18, United
23 States Code, Section 2.

24 COUNTS SEVEN THROUGH TWELVE: (18 U.S.C. §§ 1341, and 2 – Mail Fraud;
25 Aiding and Abetting)

26 26. The allegations contained in paragraphs 1 through 23 of this Indictment are
27 realleged as though fully set forth herein.

28 //

and elsewhere, the defendants

SERGE IVANOV and
MICHAEL SOLOVEY
a/k/a Robert Stein

having knowingly devised and intended to devise a scheme and artifice to defraud and to obtain money and property by false and fraudulent pretenses, representations and promises, as set forth in paragraphs 1 through 23 of Count 1 of this Indictment, for purposes of executing that scheme, caused to be delivered by Federal Express the following items:

Count	Approximate Date of the Mailing	Description of Item Mailed
SEVEN	January 15, 2001	FAFSA for Student A
EIGHT	January 15, 2001	FAFSA for Student B
NINE	January 15, 2001	FAFSA for Student C
TEN	February 12, 2001	FAFSA for Student D
ELEVEN	February 22, 2001	FAFSA for Student E

All in violation of Title 18, United States Code, Sections 1341, and 2.

COUNTS TWELVE THROUGH SIXTEEN: (18 U.S.C. §§ 1956(a)(1)(A)(i) and 2 – Laundering of Monetary Instruments; Aiding and Abetting)

28. The allegations contained in paragraphs 26 and 27 of this Indictment are realleged as though fully set forth herein.

29. On or about the dates set forth below, in the Northern District of California and elsewhere, the defendants

SERGE IVANOV and
MICHAEL SOLOVEY
a/k/a Robert Stein

did knowingly conduct financial transactions which affected interstate commerce with the proceeds of a specified unlawful activity – namely, mail fraud, a violation of Title 18, United States Code, Sections 1341 – with the intent to promote the carrying on of the specified unlawful activity, as follows:

Count	Date of Financial Transaction	Description of Financial Transaction	Amount
TWELVE	March 20, 2001	Check No. 1367, drawn on Bank of America Account 0308608125 issued to STC Account 02537-07770	\$11,057.50
THIRTEEN	May 22, 2001	Check No. 1307, drawn on Bank of America Account 0308608125 issued to STC Account 02537-07770	\$13,254.76
FOURTEEN	June 27, 2001	Check No. 1438, drawn on Bank of America Account 0308608125 issued to STC Account 02537-07770	\$16,932.00
FIFTEEN	October 5, 2001	Check No. 1741, drawn on Bank of America Account 0308608125, issued to Universal Consulting Group Account 02804-10254	\$57,535.18
SIXTEEN	October 12, 2001	Check No. 1786 drawn on Bank of America Account 0308608125, issued to Universal Consulting Group Account 02804-10254	\$49,000.00

All in violation of Title 18, United States Code, Sections 1956(a)(1)(A)(i) and 2.

FORFEITURE ALLEGATION: (18 U.S.C. § 982(a)(1) – Forfeiture)

30. The allegations contained in Counts Seven through Sixteen of this Indictment are realleged as though fully set forth herein.

31. As a result of the money laundering offenses, in violation of Title 18, United States Code, Sections 1956(a)(1)(A)(i) , as alleged in Counts Twelve through Sixteen above, the defendants

SERGE IVANOV and
MICHAEL SOLOVEY
a/k/a Robert Stein

shall forfeit to the United States the sum of \$403,833.00, as property involved in or traceable to the above-described money laundering violations.

32. If, as a result of any act or omission of the defendants, any of the above-

1 described property

- 2 a. cannot be located upon the exercise of due diligence;
- 3 b. has been transferred, or sold to, or deposited with, a third person;
- 4 c. has been placed beyond the jurisdiction of the Court;
- 5 d. has been substantially diminished in value; or
- 6 e. has been commingled with other property that without difficulty
- 7 cannot be subdivided;

8 then the defendants shall forfeit to the United States any and all interest that the
9 defendants have in any other property (not to exceed the value of the above forfeitable
10 property),

11 All in violation of Title 18, United States Code, Section 982(a)(1).

12 SENTENCING ALLEGATIONS

13 33. With respect to each count of the Indictment, the defendants MICHAEL
14 SOLOVEY and SERGE IVANOV:

- 15 (a) abused a position of public and private trust in a manner that
- 16 significantly facilitated the commission and concealment of the
- 17 offenses.

18 34. With respect to Counts Two through Six of the Indictment, the defendant
19 SERGE IVANOV:

- 20 (a) received a total amount of \$1,696,413 in unauthorized funds from
- 21 DOE.

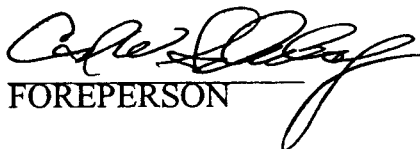
22 35. With respect to Counts Seven through Eleven of the Indictment,

- 23 (a) the loss exceeded \$400,000;
- 24 (b) the offense involved 50 or more victims;
- 25 (c) the offense involved a misrepresentation to a consumer in connection
- 26 with obtaining, providing or furnishing financial assistance for an
- 27 institution of higher education; and
- 28 (d) the offense involved sophisticated means.

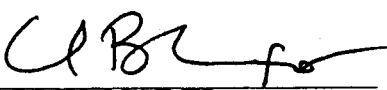
36. With respect to Counts Twelve through Sixteen of the Indictment, the value
of the laundered funds was more than \$400,000.

DATED:

A TRUE BILL.


FOREPERSON

KEVIN V. RYAN
United States Attorney


ROSS W. NADEL
Chief, Criminal Division

(Approved as to form: 
AUSA Stacey Geis)